

A N N U A L
R E P O R T

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Dominion Coal Company, Limited

Executive and General Offices — Ville St. Pierre, Quebec

Mailing address — P.O. Box 249, MONTREAL, QUEBEC

DIRECTORS

J. A. Brillant	T. J. Emmert
C. J. Burchell	A. L. Fairley, Jr.
Sir Aubrey Burke	C. L. Gundy
J. E. Clubb	R. A. Jodrey
F. C. Cope	Jean Raymond
Air Marshal W. A. Curtis	F. H. Sobey
Sir Roy Dobson	Colin W. Webster
	R. J. Wysor

OFFICERS

T. J. Emmert	<i>Chairman of the Board</i>
A. L. Fairley, Jr.	<i>President</i>
J. E. Clubb	<i>Executive Vice-President</i>
H. C. M. Gordon	<i>Vice-President</i>
G. C. Broadbent	<i>Vice-President and Secretary</i>
E. L. Pursey	<i>Treasurer</i>
R. E. Cromwell	<i>General Solicitor</i>



Dominion Coal Company

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED JULY 31, 1963

To the Shareholders:

Submitted herewith is the consolidated balance sheet of your Company and its subsidiary companies as at July 31, 1963, with relative statement of income and deficit for the year then ended, together with the report of the auditors, Messrs. Price Waterhouse & Co.

BALANCE SHEET

Working capital at July 31, 1963, amounted to \$6,035,118, which was an increase of \$1,025,524 compared with the comparable figure at July 31, 1962. During the year expenditures on fixed assets totalled \$1,929,555; depreciation provided for the year amounted to \$1,674,063; and, for the first time, a charge for the depletion of the mining areas was made in the amount of \$330,824. The Dominion Rolling Stock Company Limited put out a new issue of 6% Sinking Fund Bonds, totalling \$825,000, the proceeds of which were used to partially defray the cost of the acquisition of 200 hopper cars for the Cumberland Railway. The bonds mature at the rate of \$55,000 per annum during the years 1964-1978.

Regular repayments of bonds and serial notes issued in previous years were made, amounting to \$783,369. In addition repayment of \$525,000 was made on the 4% Government Mechanization Loan, and provision has been made, under current liabilities, for repayment of \$1,000,000 on this loan during the coming fiscal year.

INCOME AND DEFICIT

The operations of the Company and its subsidiaries resulted in a combined net income of \$1,141,044 for the year ended July 31, 1963. The corresponding figure for the preceding fiscal year was \$378,440. It is to be noted, however, that the income for the previous fiscal year included \$1,162,028 of special government assistance, and subvention claim settlements applicable to prior years of \$348,223. In the fiscal year just ended there is included no special government assistance and the amount of subvention claim settlement applicable to prior years amounted to \$773,584.

Production of coal from your collieries amounted to 3,308,242 net tons compared with 3,011,037 net tons for the year ended July 31, 1962. Sales of coal during the year ended July 31, 1963 amounted to 3,552,116 net tons compared with 2,968,042 net tons for the previous fiscal year.

THE YEAR IN RETROSPECT

More stable conditions prevailed in the mining operations of your Company during the fiscal year just ended than has been the case in recent years. Number 16 mine ceased operations on August 4, 1962 and this completed all mine closures contemplated at present. The remaining mines operated on a full-time basis during the whole fiscal year. Such stable conditions do not, however, prevail in the marketing activities of your Company. Severe competition continues from oil and natural gas and there is little likelihood of this competition diminishing in the years to come.

The Federal Government has recognized this competition and in May 1963 subvention assistance was made available to assist coal to compete with imported residual fuel oil in the Maritime Provinces and Quebec. This is a new policy and one which will aid coal's competitive posture in these Provinces.

The most significant achievement during the year was the signing of a contract with The Hydro-Electric Power Commission of Ontario for the supply of 2,850,000 net tons of coal during the 5-year period 1963-1967. To fulfil an order of this magnitude requires the chartering of large self-unloading vessels, the first of which is presently under construction in Canada. The use of these large ships has necessitated the building, by your Company, of a new loading pier in Sydney to accommodate such vessels. It is indeed fortunate that plans were well advanced for this new pier, which is scheduled to commence operations early next year, since the present one was badly dam-

Limited and subsidiary companies

aged by fire in July. However, the making of temporary repairs plus the use of alternative loading procedures, will result in all contracts being filled without undue interruption of supply to our customers.

After prolonged labour negotiations culminating in a Conciliation Board hearing, a new two-year labour contract was recently signed which provides for wage increases during 1963 and 1964. Certain fringe benefits were also granted. Labour relations generally were satisfactory during the year and there were no major strikes. We are looking forward to continuing improvement in our labour relations picture.

THE FUTURE

The successful operation of your Company remains dependent on continuation of the Government's policy of granting subvention assistance against imported fuels. However, with the stabilization of production of coal from your collieries, the unremitting efforts of the sales force to secure every possible profitable order for coal and the proposal of legislation to put government subvention policy on a five-year basis instead of the present year-to-year arrangement, it is perhaps permissible to look to the future with a certain degree of cautious optimism. Nevertheless, the outlook is fraught with difficult problems. Ever-increasing competition from alternative fuels, increasing costs arising from a constantly upward trend in labour rates and material costs, and the necessity for the expenditure of large sums of money for capital improvements to maintain production at an economic level, will continue to present major problems to management.

It will probably not be possible for the Company to always make as good a showing as it did during the last year, particularly since the large settlement of previous years' subvention claims, which was made during the last twelve months and contributed so heavily to our profit position, is not expected to be of equivalent size in future years. Nevertheless, taking everything into consideration, we are hopeful for the future.

EXECUTIVE CHANGES

Since the last Annual General Meeting, Sir Roy Dobson, Chairman of the Board, tendered his resignation following a term of office marked by major improvements in the Company's position. His outstanding ability and sincere encouragement will be greatly missed.

Mr. T. J. Emmert succeeded Sir Roy Dobson as Chairman of the Board.

Mr. J. E. Clubb, formerly Vice-President Finance and Treasurer, was named Executive Vice-President and elected to the Board of Directors.

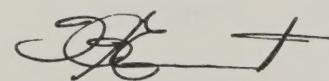
Mr. E. L. Pursey was named Treasurer.

IN MEMORIAM

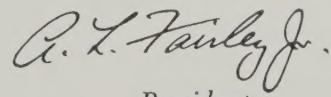
It is with deep regret we record the loss by death of Frank Doxey, General Manager of Coal Operations. Associated with the Company since 1949, he was highly respected both for his professional ability and his personal warmth.

The Directors wish to record their appreciation to the officers and employees of the Company and its subsidiaries for their continued loyal service rendered throughout the year.

Submitted on behalf of the Board,



Chairman of the Board



R. L. Fairley Jr.

President

Ville St. Pierre, P.Q., October 11, 1963.



Dominion Coal Company

CONSOLIDATED BALANCE

ASSETS

	1963	1962
CURRENT ASSETS :		
Cash	\$ 31,685	\$ 71,202
Accounts receivable, less allowance for doubtful accounts	7,626,569	6,186,285
Income taxes recoverable	—	26,957
Inventories, at lower of cost or market, less reserve \$1,234,819 (unchanged in 1963) —		
Coal	4,575,055	6,279,316
Materials and supplies	1,942,285	1,388,347
Prepaid expenses	312,415	360,127
	<hr/> <u>\$14,488,009</u>	<hr/> <u>\$14,312,234</u>
FIXED ASSETS :		
Collieries, buildings, machinery and equipment, at cost	\$34,098,691	\$32,444,528
Less : Accumulated depreciation	<hr/> 26,605,367	<hr/> 25,161,089
	<hr/> <u>\$ 7,493,324</u>	<hr/> <u>\$ 7,283,439</u>
Land and mining leases, less amounts written off (Note 1)	<hr/> 10,825,872	<hr/> 11,163,071
	<hr/> <u>\$18,319,196</u>	<hr/> <u>\$18,446,510</u>
UNAMORTIZED BOND DISCOUNT AND EXCHANGE	<hr/> \$ —	<hr/> \$ 32,535
SIGNED ON BEHALF OF THE BOARD :		
T. J. EMMERT, <i>Director</i>		
A. L. FAIRLEY, JR., <i>Director</i>		
	<hr/> <u>\$32,807,205</u>	<hr/> <u>\$32,791,279</u>

AUDITORS' REPORT TO THE SHAREHOLDERS, DOMINION COAL COMPANY, LIMITED :

We have examined the consolidated balance sheet of Dominion Coal Company, Limited and subsidiary companies as at July 31 1963 and the related consolidated statement of income and deficit for the year then ended, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations

Limited and subsidiary companies

SHEET — JULY 31 1963

LIABILITIES

	1963	1962
CURRENT LIABILITIES :		
Bank loans (secured)	\$ 1,997,886	\$ 2,986,783
Accounts payable and accrued liabilities	4,413,120	3,604,655
Income and other taxes	734,153	634,768
Due to associated companies	49,363	798,065
Payments on long term debt due within one year	1,258,369	1,278,369
	<hr/> \$ 8,452,891	<hr/> \$ 9,302,640
LONG TERM DEBT (Note 2)	<hr/> \$ 6,047,848	<hr/> \$ 6,323,217
OPERATING AND CONTINGENT RESERVES	<hr/> \$ 3,381,928	<hr/> \$ 3,381,928
SHAREHOLDERS' INVESTMENT :		
Capital stock —		
6% cumulative sinking fund preferred shares, par value \$25 each —		
Authorized — 400,000 shares	<hr/> \$10,000,000	
Outstanding — 208,759 shares	\$ 5,218,975	\$ 5,218,975
(Preferred dividends in arrears \$3,470,618)		
Common shares —		
Authorized and issued — 480,000 shares, par value \$25 each (owned by Dominion Steel and Coal Corporation, Limited)	12,000,000	12,000,000
Deficit	<hr/> (2,294,437)	<hr/> (3,435,481)
	<hr/> \$14,924,538	<hr/> \$13,783,494
	<hr/> \$32,807,205	<hr/> \$32,791,279

given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and related consolidated statement of income and deficit are properly drawn up so as to exhibit a true and correct view of the combined state of affairs of the companies as at July 31 1963 and the results of their combined operations for the year then ended on a basis consistent with that of the preceding year except for the adoption, which we approve, of the depletion policy explained in Note 1 to the consolidated financial statements.

MONTREAL, September 10 1963

PRICE WATERHOUSE & CO.
Chartered Accountants



Dominion Coal Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — JULY 31 1963

Note 1 — DEPLETION

Effective August 1 1962 the company adopted the policy of providing for depletion of land and mining leases at the rate of \$0.10 per ton of coal produced.

Note 2 — LONG TERM DEBT

	Current	Long Term
Dominion Coal Company, Limited —		
4% Special Loan, advanced under Coal Production Assistance Act — maximum \$7,500,000 repayable on or before June 30 1970 on a basis of production —		
Total advances	\$ 7,260,585	
Less: Repayments	<u>1,803,279</u>	
	<u>\$ 5,457,306</u>	\$ 1,000,000 \$ 4,457,306

The Dominion Rolling Stock Company Limited —

First mortgage equipment bonds —		
4¼% serial bonds, due February 1 1964	85,000	—
6% serial bonds, due \$12,500 annually to March 1 1978	12,500	175,000
5½% serial bonds (U.S. funds) due \$50,000 annually to March 1 1973	50,000	450,000
6% sinking fund bonds, annual sinking fund payment \$55,000, due May 1 1978	55,000	770,000
7% serial notes, due \$13,967 quarterly to December 1 1967	<u>55,869</u>	<u>195,542</u>
	<u>\$ 1,258,369</u>	<u>\$ 6,047,848</u>

Note 3 — PENSIONS

Pensions are not funded and payments to pensioners are charged directly against income.

Note 4 — INCOME TAXES

Estimated income taxes have been reduced by the application of capital cost allowances in excess of recorded depreciation and of a portion of available losses in prior years of a subsidiary company. Had these allowances and losses not been applicable, estimated income taxes for 1963 would have increased by approximately \$600,000. At July 31 1963 tax values of depreciable properties substantially exceeded net book values.

Limited and subsidiary companies

**CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED JULY 31 1963**

	1963	1962
Combined income from operations, including government subventions, after deducting mining costs, selling and administration expenses	\$ 3,951,299	\$ 2,075,998
Payments to pensioners (Note 3)	\$ 984,228	\$ 995,949
Interest on long term debt	318,818	332,367
Interest on bank loans, etc.	165,674	243,540
Provision for depreciation	1,674,063	1,605,953
Provision for depletion (Note 1)	330,824	—
Bond discount and exchange written off	35,232	—
	<hr/>	<hr/>
	\$ 3,508,839	\$ 3,177,809
	<hr/>	<hr/>
Income (loss) before undernoted items	\$ 442,460	(\$1,101,811)
	<hr/>	<hr/>
Additional subventions received in respect of prior years	773,584	348,223
	<hr/>	<hr/>
Special government assistance, terminated July 31 1962, in connection with costs incurred in delaying closure of uneconomic coal mines	—	1,162,028
	<hr/>	<hr/>
Income before income taxes	\$ 1,216,044	\$ 408,440
	<hr/>	<hr/>
Estimated income taxes (Note 4)	75,000	30,000
	<hr/>	<hr/>
Net income for the year	\$ 1,141,044	\$ 378,440
	<hr/>	<hr/>
Deficit at beginning of year	3,435,481	3,813,921
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Deficit at end of year	\$ 2,294,437	\$ 3,435,481
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Dominion Coal Company, Limited

**LIST OF SUBSIDIARY COMPANIES
INCLUDED IN THE CONSOLIDATED
BALANCE SHEET AND IN THE
CONSOLIDATED STATEMENT OF
INCOME AND DEFICIT JULY 31 1963**

Sydney and Louisburg Railway Company

The Dominion Rolling Stock Company Limited

The Cumberland Railway Company

Dominion Coal Import Company Limited

